

Montague Area Public Schools

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended June 30, 2006

# Montague Area Public Schools

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This section of the Montague Area Public School's annual financial report presents our discussion and analysis of the district's financial performance during the fiscal year ended June 30, 2006. It is to be read in conjunction with the district's financial statements which immediately follows.

### **Financial Highlights**

The district's total net assets were \$930,194 at June 30, 2006, which was a decrease from fiscal year 2005 of \$718,863.

During the year, the district's total expenses were \$15,323,097. Of this amount:

- \$466,717 was paid by direct charges (mostly to the Muskegon Area Intermediate School District and other school districts) to the benefiting parties;
- \$2,023,778 was paid by grants from the state and federal governments; and
- The remaining portion was paid through property taxes, state financial aid, investment income and other locally generated revenues.

The district's governmental funds reported total combined fund balance of \$1,531,443, a decrease of \$405,915 from the previous year.

Total governmental fund operating revenues increased 3.6% to \$14,088,044 while the total governmental fund operating expenditures decreased 12.1% to \$15,624,592.

### **Overview of Financial Statements**

This annual report consists of four parts – management's discussion and analysis (this section), the auditors' opinion, the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district.

The first two statements are district-wide financial statements that provide both short-term and long-term information about the district's overall status.

The remaining statements are the fund financial statements that focus on individual parts of the district, reporting the district's operations in more detail than the district-wide statements.

- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the district acts solely as a trustee or agent for the benefit of others.

### **District-Wide Statements**

The district-wide statements report information on the district as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the district's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the district's net assets and how they have changed. Net assets - the difference between the district's assets and liabilities - are one way to measure the district's financial health or position.

- Over time, increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the district, you need to consider additional non-financial factors such as changes in the district's property tax base, student count and the condition of school buildings and other facilities.

In the district-wide financial statements, the district's activities are all governmental activities. Most of the district's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the district's funds, focusing on its most significant or "major" funds rather than the district as a whole. Funds are accounting devices the district uses to keep track of specific sources of funding and spending for particular programs.

- Some funds are required by state law and by bond covenants.
- The district establishes other funds to control and manage money for specific purposes. Montague Area Public Schools maintains funds for athletics, food service, debt retirement, capital project, scholarship and agency funds.

The district has two kinds of funds:

- Governmental funds-most of the district's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the district's programs. Because long-term information is not generally included in the governmental funds statements, additional information is provided that explains the differences between the district-wide statements and the governmental funds statements.
- Fiduciary funds-the district is the trustee, or fiduciary, for assets that belong to others, such as the student activity funds. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the district cannot use these assets to finance its operations.

**Financial Analysis of the District as a Whole**

Net assets as of June 30, are shown in Table 1

**Table 1**  
**Net Assets**

	Governmental activities	
	2006	2005*
Current assets	\$ 4,082,137	\$ 3,608,457
Capital assets, net	34,727,419	35,608,957
Other noncurrent assets	540,342	435,840
Total assets	39,349,898	39,653,254
Current liabilities	3,997,481	3,088,234
Noncurrent liabilities	34,422,223	34,915,963
Total liabilities	38,419,704	38,004,197
Net assets		
Invested in capital assets, net of related debt	4,527,723	4,516,590
Restricted for:		
Debt service	-	165,608
Capital projects	-	456,588
Permanent funds	40,872	36,843
Unrestricted	(3,638,401)	(3,526,572)
Total Net Assets	\$ 930,194	\$ 1,649,057

\*2005, as restated

**Financial Position**

Increases or decreases in the district's net assets indicate whether the financial position of the district is improving or deteriorating, respectively.

Current assets increased by \$510,523 from the 2005 balance. In addition, capital asset balances decreased by \$881,538 (net of \$1,197,858 in depreciation).

The district borrowed an additional \$467,000 from the School Bond Loan Fund to assist with its debt service requirements. The 2001 bond issue was partially refunded by the issuance of new bonds which will reduce future interest costs.

**Financial Analysis of the District as a Whole - Continued**

The impact that the district's revenues and expenses had on overall financial position is shown in Table 2.

**Table 2**  
**Changes in Net Assets**

	Governmental activities	
	2006	2005*
Revenues		
Program revenues		
Charges for services	\$ 466,717	\$ 480,087
Operating and contributions	2,023,778	1,962,899
General revenues		
Property taxes	4,270,991	3,920,075
Unrestricted grants and contributions	7,627,871	7,646,135
Other	214,877	199,535
Total revenues	14,604,234	14,208,731
Expenses		
Instruction	7,613,075	7,892,177
Supporting services	4,135,679	3,788,926
Food service	550,744	557,540
Athletics	284,531	303,285
Interest on long-term debt	1,518,429	1,607,470
Unallocated depreciation	1,220,639	1,080,333
Total expenses	15,323,097	15,229,731
Change in net assets	(718,863)	(1,021,000)
Net assets at beginning of year	1,649,057	2,633,214
Restatement	-	36,843
Net assets at end of year	\$ 930,194	\$ 1,649,057

\*2005, as restated

**Change in Net Assets**

- Total expenses of \$15,323,097 exceeded total revenues of \$14,604,234 resulting in a decrease in total net assets of \$718,863.
- Enrollment decreased to a blended student count of 1,479 in 2005-06, a .9% decrease from 2004-05.
- The 2006 state foundation of \$10,171,288 was an increase of \$168,992 from 2005. The increase was due to the increase in the foundation allowance which increased by \$175 per pupil, from \$6,700 to \$6,875.
- The \$168,992 increase in the state foundation was made up of an increase of \$11,835 in state aid and an increase of \$157,157 in property tax revenue.

### Financial Analysis of the District's Funds

The district's General Fund reported total fund balance of \$1,093,768 at June 30, 2006. Of this amount, \$1,067,200 was unreserved and undesignated. This fund balance level represents a decrease of \$134,163 from the prior year. Significant changes affecting fund balance are as follows:

- There was an overall increase in revenues of \$336,868.
- Expenditures for instruction and supporting services increased by \$374,448.
- Principal payments of \$12,388 and interest of \$1,152 were made in conjunction with the copier loan.
- The General Fund transferred out \$209,787 to support the athletics fund.

The district's debt service funds reported a combined fund balance of \$169,784 at June 30, 2006, an increase of \$4,176.

- There was an increase in property taxes levied for debt service of \$166,967.
- Total debt service payments were \$2,735,647, a 1.3 % decrease from the previous year. Of the amount spent for the year ended June 30, 2006, \$1,143,567 was paid on principal and \$1,592,080 was spent on interest and other charges.
- The district borrowed \$467,000 from the Michigan School Bond Loan Fund.

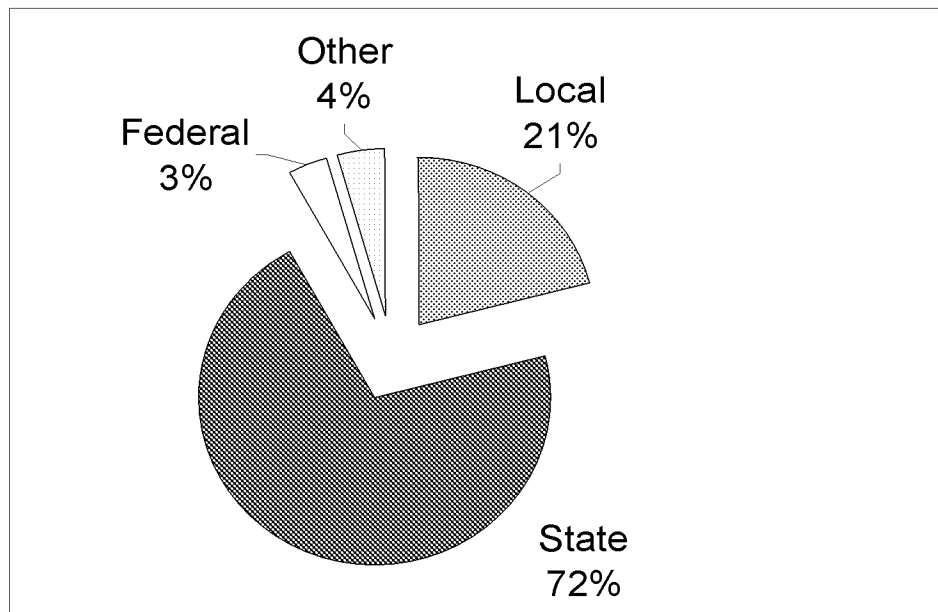
### **General Fund Budgetary Highlights**

District budgets were reviewed and amended twice during the fiscal year. A schedule showing the district's original and final amended budget amounts compared with amounts actually paid and received is provided in the required supplementary information section of these financial statements.

The final budget of the district anticipated that expenditures would exceed revenues by \$465,525. However, actual revenues were \$45,192 higher than expected and actual expenditures were \$286,170 lower than expected, resulting in an actual decrease in fund balance of \$134,163.

The majority of the district's funding is received from state sources. The financial stability of the district is dependent on the economic health of the State of Michigan. The following chart outlines the revenue by source.

**2005-2006 Sources of Revenue Chart**



### Capital Asset and Debt Administration

#### Capital Assets

At June 30, 2006, the district had invested over \$34.7 million in net capital assets, including land, school buildings, school buses, athletic facilities, furniture, computer and audiovisual equipment and the transportation facility as shown below in Table 3. Total depreciation expense charged to the district was \$1,197,858.

**Table 3  
Summary of Capital Assets**

	Governmental Activities	
	2006	2005
Land	\$ 722,563	\$ 722,563
Buildings and improvements	31,398,357	32,160,970
Equipment and furniture	2,268,181	2,334,964
School buses and vehicles	179,798	231,940
Construction in progress	158,520	158,520
Total	\$ 34,727,419	\$ 35,608,957

More detailed information about capital assets can be found in notes A and D of these financial statements.



### Long-Term Debt

At June 30, 2006, the district had over \$35.6 in general obligation bonds and other long-term debt outstanding as shown below in Table 4.

**Table 4**  
**Summary of Indebtedness**

	Governmental Activities	
	2006	2005
Balance of 1997 school building and site bonds	\$ -	\$ 300,000
Balance of 2001 school building and site and refunding bonds	12,655,000	22,105,000
Balance of 2005 refunding bonds, net	9,265,707	9,313,276
Balance of 2006 refunding bonds, net	8,730,129	-
Balance of school bond loan fund	4,216,912	3,598,653
Balance of 1998 Durant non-plaintiff bonds	104,504	113,071
Installment loan	24,776	37,164
Educational interconnection and Consortium Financing Agreement	88,851	101,544
Compensated absences	541,140	504,655
Total	\$ 35,627,019	\$ 36,073,363

More detailed information about the district's long-term debt can be found in notes A and I of these financial statements.

### Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the district was aware of the following circumstances that could significantly affect its financial health in the future:

- The pupil foundation grant will increase to \$7,075 per pupil in 2006-07.
- Health insurance costs rose less than 1% in 2006-07.
- The district's contribution to the school employee's retirement system increased from 16.34% in 2005-06 to 17.74% in 2006-07.
- The un-audited pupil count for the fall of 2006 is 1,489 students. The 2006-07 budget was based on an estimated count of 1,460.
- The teacher's contract was settled in late August of 2006 and will be in effect until August of 2010.
- The hourly contract is still being negotiated. It expired in July of 2005.

### Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional information, contact James A. Booth, Superintendent, or Pamela Wernstrom, Director of Business Affairs, Montague Area Public Schools, 4882 Stanton Blvd., Montague, MI 49437, telephone number (231) 893-1515.

# BRICKLEY DE LONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

September 29, 2006

Board of Education  
Montague Area Public Schools  
Montague, Michigan

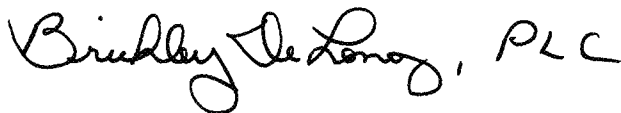
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Montague Area Public Schools (School District), as of and for the year ended June 30, 2006, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Montague Area Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Montague Area Public Schools, as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated September 29, 2006, on our consideration of Montague Area Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i - vii and page 26, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Montague Area Public Schools  
**STATEMENT OF NET ASSETS**  
June 30, 2006

	Governmental activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,131,604
Investments	975,663
Receivables	125,350
Due from other governmental units	1,815,079
Inventories	<u>34,441</u>
Total current assets	4,082,137
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	881,083
Depreciable	33,846,336
Bond issuance costs, net	421,149
Note and interest receivable	<u>119,193</u>
Total noncurrent assets	<u>35,267,761</u>
Total assets	39,349,898
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
State aid loan	750,000
Accounts payable and accrued liabilities	1,686,036
Due to other governmental units	233,994
Deferred revenue	108,397
Bonds and other obligations, due within one year	<u>1,219,054</u>
Total current liabilities	3,997,481
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	34,407,965
Accrued interest	<u>14,258</u>
Total noncurrent liabilities	<u>34,422,223</u>
Total liabilities	<u>38,419,704</u>
NET ASSETS	
Invested in capital assets, net of related debt	4,527,723
Restricted for nonexpendable permanent funds	40,872
Unrestricted	<u>(3,638,401)</u>
Total net assets	<u>\$ 930,194</u>

The accompanying notes are an integral part of this statement.

**Montague Area Public Schools**  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2006

<i><b>Functions/Programs</b></i>	Expenses	Program Revenue		Net (Expense)
		Charges for services	Operating grants and contributions	Revenue and Changes in Net Assets
Governmental activities				Governmental activities
Instruction	\$ 7,613,075	\$ 13,110	\$ 1,315,321	\$ (6,284,644)
Support services	4,135,679	119,335	389,478	(3,626,866)
Food services	550,744	259,701	317,127	26,084
Athletics	284,531	74,571	1,852	(208,108)
Interest on long-term debt	1,518,429	-	-	(1,518,429)
Unallocated depreciation and amortization	1,220,639	-	-	(1,220,639)
Total governmental activities	<u>\$ 15,323,097</u>	<u>\$ 466,717</u>	<u>\$ 2,023,778</u>	(12,832,602)
General revenues				
Property taxes levied for				
General purposes				2,172,807
Debt service				2,098,184
Grants and contributions not restricted to specific programs				7,627,871
Investment earnings				91,136
Miscellaneous				120,065
Contributions to permanent fund				<u>3,676</u>
Total general revenues and contributions to permanent fund				<u>12,113,739</u>
Change in net assets				(718,863)
Net assets at July 1, 2005, as restated				<u>1,649,057</u>
Net assets at June 30, 2006				<u>\$ 930,194</u>

The accompanying notes are an integral part of this statement.

Montague Area Public Schools

**BALANCE SHEET**

Governmental Funds

June 30, 2006

	General Fund	2001 Capital Projects Fund	2001 Debt Service Fund	Other governmental funds	Total governmental funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 860,601	\$ 18,410	\$ 94,406	\$ 158,187	\$ 1,131,604
Investments	847,567	128,096	-	-	975,663
Receivables	125,350	-	-	-	125,350
Due from other governmental units	1,811,270	-	-	3,809	1,815,079
Due from other funds	6,194	-	-	41,113	47,307
Inventories	26,568	-	-	7,873	34,441
Total assets	<u>\$ 3,677,550</u>	<u>\$ 146,506</u>	<u>\$ 94,406</u>	<u>\$ 210,982</u>	<u>\$ 4,129,444</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
State aid loan	\$ 750,000	-	\$ -	\$ -	\$ 750,000
Accounts payable	192,861	2,889	-	739	196,489
Accrued liabilities	1,260,927	-	-	-	1,260,927
Due to other governmental units	233,994	-	-	-	233,994
Due to other funds	41,113	-	300	5,894	47,307
Deferred revenue	104,887	-	-	4,397	109,284
Total liabilities	2,583,782	2,889	300	11,030	2,598,001
Fund balances					
Reserved					
Inventories	26,568	-	-	7,873	34,441
Debt service	-	-	94,106	75,678	169,784
Capital projects	-	143,617	-	-	143,617
Permanent funds	-	-	-	40,872	40,872
Unreserved					
Undesignated					
General Fund	1,067,200	-	-	-	1,067,200
School service	-	-	-	75,529	75,529
Total fund balances	<u>1,093,768</u>	<u>143,617</u>	<u>94,106</u>	<u>199,952</u>	<u>1,531,443</u>
Total liabilities and fund balances	<u>\$ 3,677,550</u>	<u>\$ 146,506</u>	<u>\$ 94,406</u>	<u>\$ 210,982</u>	<u>\$ 4,129,444</u>

The accompanying notes are an integral part of this statement.

Montague Area Public Schools  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS**  
 June 30, 2006

Total fund balance—governmental funds		\$ 1,531,443
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Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not current financial resources and  
are not reported in the governmental funds.

Cost of capital assets	\$ 48,765,696	
Accumulated depreciation	<u>(14,038,277)</u>	34,727,419

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	492,442	
Accumulated amortization	<u>(71,293)</u>	421,149

Other long-term note and interest receivable in governmental activities is not reported in the  
governmental funds.

119,193

Accrued interest in governmental activities is not reported in the governmental funds.

(242,878)

Deferred revenue reported on the balance sheet that does not provide current financial  
resources is not reported as revenue in the governmental funds.

887

Long-term liabilities in governmental activities are not due and payable in the current period  
and are not reported in the governmental funds.

Bonds and notes payable	(35,085,879)	
Compensated absences	<u>(541,140)</u>	<u>(35,627,019)</u>

Net assets of governmental activities in the Statement of Net Assets

\$ 930,194

The accompanying notes are an integral part of this statement.

Montague Area Public Schools  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Governmental Funds  
For the year ended June 30, 2006

	General Fund	2001 Capital Projects Fund	2001 Debt Service Fund	Other governmental funds	Total governmental funds
REVENUES					
Local sources					
Property taxes	\$ 2,175,677	\$ -	\$ 1,493,765	\$ 604,419	\$ 4,273,861
Investment earnings	53,068	9,375	15,799	12,894	91,136
Fees and charges	132,445	-	-	315,275	447,720
Other	117,765	-	-	24,525	142,290
Total local sources	2,478,955	9,375	1,509,564	957,113	4,955,007
State sources	8,393,407	-	-	54,067	8,447,474
Federal sources	410,074	-	-	275,489	685,563
Total revenues	11,282,436	9,375	1,509,564	1,286,669	14,088,044
EXPENDITURES					
Instruction	7,586,863	-	-	-	7,586,863
Support services	4,143,161	-	-	-	4,143,161
Food services	-	-	-	550,744	550,744
Athletics	-	-	-	284,531	284,531
Permanent	-	-	-	1,300	1,300
Debt service					
Principal	-	-	775,000	368,567	1,143,567
Interest and other charges	-	-	860,209	505,970	1,366,179
Advance refunding escrow	-	-	90,000	-	90,000
Bond issuance cost	-	-	-	135,901	135,901
Capital projects	-	322,346	-	-	322,346
Total expenditures	11,730,024	322,346	1,725,209	1,847,013	15,624,592
Excess (deficiency) of revenues over (under) expenditures	(447,588)	(312,971)	(215,645)	(560,344)	(1,536,548)
OTHER FINANCING SOURCES (USES)					
Transfers from other governmental units and other transactions	527,732	-	-	-	527,732
Loan proceeds	-	-	200,000	267,000	467,000
Proceeds of refunding bonds	-	-	-	9,190,000	9,190,000
Discount on refunding bonds	-	-	-	(74,269)	(74,269)
Transfers in	-	-	-	214,307	214,307
Transfers out	(214,307)	-	-	-	(214,307)
Payment to refunded bond escrow agent	-	-	-	(8,979,830)	(8,979,830)
Total other financing sources (uses)	313,425	-	200,000	617,208	1,130,633
Net change in fund balances	(134,163)	(312,971)	(15,645)	56,864	(405,915)
Fund balances at July 1, 2005, as restated	1,227,931	456,588	109,751	143,088	1,937,358
Fund balances at June 30, 2006	\$ 1,093,768	\$ 143,617	\$ 94,106	\$ 199,952	\$ 1,531,443

The accompanying notes are an integral part of this statement.

Montague Area Public Schools  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2006

Net change in fund balances—total governmental funds	\$	(405,915)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (1,220,639)	
Capital outlay and bond issuance costs	<u>452,221</u>	(768,418)

Receipt of principal on note receivable is a revenue in the governmental funds, but the receipt reduces noncurrent assets in the Statement of Net Assets.		(8,567)
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Interest income on long-term note receivable is recorded in the Statement of Activities when earned, but is not reported in governmental funds until received.		(51)
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Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.		887
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Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets.		(9,339,160)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		9,821,989
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		16,857
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		<u>(36,485)</u>
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Change in net assets of governmental activities	\$	<u><u>(718,863)</u></u>
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The accompanying notes are an integral part of this statement.



Montague Area Public Schools  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
Fiduciary Funds  
June 30, 2006

	Agency funds
	<hr/>
ASSETS	
Cash and cash equivalents	\$ 89,671
	<hr/> <hr/>
LIABILITIES	
Deposits held for others	\$ 89,671
	<hr/> <hr/>

The accompanying notes are an integral part of this statement.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Montague Area Public Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

***District-wide and Fund Financial Statements***

**District-wide Financial Statements** – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***District-wide and Fund Financial Statements—Continued***

**Fund financial statements** – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental funds** – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *2001 Capital Projects Fund* accounts for the use of the proceeds from the 2001 School Building and Site bonds. The bonds were approved for issuance on September 22, 2001 and may be used for school building and site purposes.
- The *2001 Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on the 2001 School Building and Site Bonds.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. The School District utilizes these funds to account for the 2005 and 2006 Refunding Bonds.
- The *permanent fund* is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District's programs.

**Fiduciary funds** – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Measurement Focus, Basis of Accounting and Basis of Presentation*

**Accrual Method**

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30, 2006 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Other Accounting Policies***

**Deposit and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

**Interfund Receivables and Payables**

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

**Property Taxes**

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are August 31 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the School District levied the following amounts per \$1,000 of taxable valuation.

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18.0
Debt service funds - Homestead and non-homestead	7.27

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Other Accounting Policies—Continued***

**Inventories**

Inventories are valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

**Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 as composite groups for financial reporting purposes. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	20-50 years
Vehicles, furniture and equipment	5-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

**Compensated Absences**

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies—Continued*

**Long-term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Net Assets In District-wide Financial Statements**

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

**Fund Equity In Fund Financial Statements**

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Finance Committee submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Director of Financial Affairs is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The School District does not consider these amendments to be significant.

**Excess of Expenditures Over Appropriations**

For the year ended June 30, 2006, expenditures exceeded appropriations in pupil transportation services by \$22,760.

**Fund Deficit**

As of June 30, 2006, the School District's Athletic Fund had a deficit of \$5,894. The deficit will be eliminated through future operations, which may include reduction of operating expenses and interfund transfers.



Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**School Bond Construction Compliance**

The 2001 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's school code.

Following is a summary of the revenue and expenditures in the 2001 Capital Projects Fund from the inception of the fund through June 30, 2006.

	<u>2001 Capital Projects Fund</u>
Revenue and bond proceeds	\$ 18,879,387
Expenditures	18,735,770

**NOTE C—DEPOSITS AND INVESTMENTS**

As of June 30, 2006, the School District had the following investments:

<b>Investment Type</b>	<u>Fair value</u>	<u>Weighted average maturity (Days)</u>	<u>Standard &amp; Poor's rating</u>	<u>Percent</u>
External investment pool	\$ <u>975,663</u>	5.6	AAAm	<u>100.0</u> %

The School District voluntarily invests certain excess funds in external investment pools (Pools). The Pools are external investment pools of "qualified" investments for Michigan school districts. The Pools are not regulated nor are they registered with the SEC. The fair value of the School District's investments is the same as the value of the Pool shares.

**Interest rate risk.** The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The School District has no investment policy that would further limit its investment choices.

**Concentration of credit risk.** The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2006, \$997,071 of the School District's bank balance of \$1,215,481 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments.** The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Foreign currency risk.** The School District is not authorized to invest in investments which have this type of risk.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b>Capital assets, not being depreciated:</b>				
Land	\$ 722,563	\$ -	\$ -	\$ 722,563
Construction in progress	158,520	-	-	158,520
Total capital assets, not being depreciated	881,083	-	-	881,083
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	41,322,787	13,143	-	41,335,930
Furniture and equipment	5,322,394	303,177	-	5,625,571
Vehicles	923,112	-	-	923,112
Total capital assets, being depreciated	47,568,293	316,320	-	47,884,613
<b>Less accumulated depreciation:</b>				
Buildings and improvements	9,161,817	775,756	-	9,937,573
Furniture and equipment	2,987,430	369,960	-	3,357,390
Vehicles	691,172	52,142	-	743,314
Total accumulated depreciation	12,840,419	1,197,858	-	14,038,277
Total capital assets, being depreciated, net	34,727,874	(881,538)	-	33,846,336
Capital assets, net	\$ 35,608,957	\$ (881,538)	\$ -	\$ 34,727,419

**Depreciation**

Depreciation expense has been charged as unallocated depreciation.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE E—BOND ISSUANCE COSTS**

Bond issuance cost activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Bond issuance costs	\$ 356,541	\$ 135,901	\$ -	\$ 492,442
Less accumulated amortization	48,512	22,781	-	71,293
Bond issuance costs, net	<u>\$ 308,029</u>	<u>\$ 113,120</u>	<u>\$ -</u>	<u>\$ 421,149</u>

**Amortization**

Amortization expense has been charged as unallocated amortization.

**NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of June 30, 2006 is as follows:

**Due to/from other funds:**

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	2001 Debt Service Fund	\$ 300
General Fund	Other governmental funds	5,894
Other governmental funds	General Fund	41,113
		<u>\$ 47,307</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Interfund Transfers**

The General Fund transferred \$4,520 to the Food Services Fund and \$209,787 to the Athletics Fund to finance operations.

**NOTE G— SHORT-TERM DEBT**

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2006 follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
State aid anticipation note				
2005/2006 5% due August 2006	\$ -	\$ 750,000	\$ -	\$ 750,000

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE H—DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Due from other governmental units	\$ 887	\$ -
Funds received prior to spending funds	<u>-</u>	<u>108,397</u>
Total deferred revenue for governmental funds	<u>\$ 887</u>	<u>\$ 108,397</u>

**NOTE I—LONG-TERM OBLIGATIONS**

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include School Bond Loan Fund, School Loan Revolving Fund, office equipment loan payable and Education Interconnection and Consortium Financing Agreement.

**Summary of Long-term Obligations**

On January 4, 2006, the School District issued \$9.19 million in General Obligation Bonds with interest rates from 4 to 4.375 percent to partially advance refund \$8.675 million of outstanding 2001 School Building and Site Bonds with interest rates from 3.45 to 5.5 percent. The net proceeds of approximately \$9.07 million (after payment of \$136 thousand in underwriting fees, insurance and other issuance costs) including \$90 thousand of 2001 Debt Retirement fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for principle redemption and interest of 2001 School Building and Site Bonds which are scheduled for maturity May 1, 2020 and beyond. As a result, the 2001 School Building and Site Bonds are considered to be partially defeased and the liability for those bonds has been removed from long-term obligations.

The School District advance refunded the 2001 School Building and Site Bonds to reduce its total debt service payments over the next 25 years by over \$510 thousand and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of over \$389 thousand.

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Due within one year</u>
<b>Governmental activities:</b>					
Bonds	\$ 31,831,347	\$ 8,720,901	\$ 9,796,908	\$ 30,755,340	\$ 1,193,973
Other obligations	3,737,361	618,259	25,081	4,330,539	25,081
Compensated absences	<u>504,655</u>	<u>65,155</u>	<u>28,670</u>	<u>541,140</u>	<u>-</u>
	<u>\$ 36,073,363</u>	<u>\$ 9,404,315</u>	<u>\$ 9,850,659</u>	<u>\$ 35,627,019</u>	<u>\$ 1,219,054</u>

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE I—LONG-TERM OBLIGATIONS—Continued**

**Summary of Long-term Obligations—Continued**

In the previous schedule, the additions for other obligations include \$467,000 of new draws and \$4,255 of accrued interest on the School Loan Revolving Fund and \$147,004 of accrued interest on the School Bond Loan Fund.

General obligation bonds consist of the following:

2001 School Building and Site General Obligation	
Bonds partially refunded January 2006; payable in annual installments ranging from \$825,000 to \$1,090,000 due May 2007 to 2019; plus interest ranging from 3.45% to 5.5% payable semi-annually	\$ 12,655,000
2005 Refunding General Obligation Bonds payable in annual installments ranging from \$360,000 to \$275,000 due May 2007 to 2023; plus interest ranging from 2.5% to 5% payable semi-annually	9,475,000
Plus issuance premium	57,692
Less deferred amount on refunding	(266,985)
2006 Refunding General Obligation Bonds payable in annual installments ranging from \$50,000 to \$740,000 due May 2016 to 2031; plus interest ranging from 4% to 4.375% payable semi-annually	9,190,000
Less issuance discount	(72,808)
Less deferred amount on refunding	(387,063)
Durant obligations payable in annual installments ranging from \$8973 to \$41,814 including interest at 4.76% due May 2007 to 2013. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations.	<u>104,504</u>
Total bonded debt	30,755,340

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE I—LONG-TERM OBLIGATIONS—Continued**

**Summary of Long-term Obligations—Continued**

Other obligations:

School Bond Loan Fund payable as soon as annual tax collections exceed annual debt service payment requirements; interest payable of \$406,513 is included at interest rates between 2.625% and 4.5% \$ 3,745,657

School Loan Revolving Fund payable no later than May 2037; interest payable of \$4,255 is included at 4.685% 471,255

Equipment loan payable in annual installments of \$12,388 through July 2007; plus interest at 3.1% 24,776

Education Interconnection and Consortium Financing Agreement payable in annual installments of \$12,693 due March 2007 to 2013 88,851

Total other obligations 4,330,539

Compensated absences 541,140

\$ 35,627,019

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

The annual requirements of principal and interest to amortize bonded debt, equipment loan and Education Interconnection and Consortium Financing Agreement outstanding as of June 30, 2006 follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 1,219,054	\$ 1,376,395	\$ 2,595,449
2008	1,259,483	1,338,121	2,597,604
2009	1,319,507	1,310,422	2,629,929
2010	1,333,011	1,250,505	2,583,516
2011	1,383,503	1,202,434	2,585,937
2012-2016	7,758,573	4,985,449	12,744,022
2017-2021	8,415,000	2,950,035	11,365,035
2022-2026	5,150,000	1,357,650	6,507,650
2027-2031	3,700,000	484,700	4,184,700
	<u>\$ 31,538,131</u>	<u>\$ 16,255,711</u>	<u>\$ 47,793,842</u>

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**

June 30, 2006

**NOTE J—EMPLOYEE BENEFITS**

***Employee Retirement System – Defined Benefit Plan***

**Plan description** – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems  
Michigan Public School Employees Retirement System  
P.O. Box 30171  
Lansing Michigan 48909  
1-800-381-5111

**Funding policy** – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006 was 16.34 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPERS Board of Trustees. The School District contributions to MPERS for the year ended June 30, 2006, 2005 and 2004 were approximately \$1,111,000, \$1,014,000, and \$901,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

**Other post-employment benefits** – Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE K—COMMITMENTS AND CONTINGENCIES**

**Commitments**

- **Construction contracts** – As of June 30, 2006, the School District had outstanding construction contracts totaling approximately \$100,000 of which \$50,000 of expenditures had been incurred. The contracts are the obligations of the 2001 Capital Projects Fund.

**Contingencies**

- **Federal programs** – The School District participates in federally-assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

**NOTE L—OTHER INFORMATION**

**Economic Dependence** – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 74 percent of General Fund revenues.

**Risk Management** – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.



Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE M—PRIOR PERIOD ADJUSTMENT**

The School District restated its July 1, 2005 fund balance and net assets to include the Scholarship Fund as a permanent fund. The School District's restated fund balance and net assets as of June 30, 2005 are as follows:

	<u>Fund balance</u>	<u>Net assets</u>
As previously reported	\$ 1,900,515	\$ 1,612,214
Permanent fund	<u>36,843</u>	<u>36,843</u>
As restated	<u>\$ 1,937,358</u>	<u>\$ 1,649,057</u>

**NOTE N—SUBSEQUENT EVENT**

On August 15, 2006, the School District received the proceeds of a \$1,300,000 State of Michigan (state) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity on August 20, 2007 and bears interest at the rate of 4.4 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit and resources of the School District.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Montague Area Public Schools  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
General Fund  
For the year ended June 30, 2006

	Budgeted amounts			Variance with final budget - positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 2,322,579	\$ 2,524,159	\$ 2,478,955	\$ (45,204)
State sources	8,358,536	8,311,337	8,393,407	82,070
Federal sources	378,457	432,355	410,074	(22,281)
Incoming transfers and other transactions	425,125	497,125	527,732	30,607
Total revenues	11,484,697	11,764,976	11,810,168	45,192
EXPENDITURES				
Instruction				
Basic programs	5,524,546	5,500,788	5,412,052	88,736
Added needs	2,087,448	2,284,927	2,174,811	110,116
Support services				
Pupil	557,142	540,046	525,590	14,456
Instructional staff	254,898	311,758	286,620	25,138
General administration	267,911	298,644	289,780	8,864
School administration	752,840	671,786	666,176	5,610
Business	247,097	245,897	221,924	23,973
Operations and maintenance	1,214,008	1,323,575	1,310,029	13,546
Pupil transportation services	521,286	703,099	725,859	(22,760)
Central	111,406	119,606	117,183	2,423
Outgoing transfers	541,250	230,375	214,307	16,068
Total expenditures	12,079,832	12,230,501	11,944,331	286,170
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(595,135)</u>	\$ <u>(465,525)</u>	(134,163)	\$ <u>331,362</u>
Fund balance at July 1, 2005, as restated			<u>1,227,931</u>	
Fund balance at June 30, 2006			\$ <u><u>1,093,768</u></u>	

Montague Area Public Schools  
**SINGLE AUDIT OF FEDERAL  
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and  
Independent Auditors' Reports

June 30, 2006

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# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

September 29, 2006

Board of Education  
Montague Area Public Schools  
Montague, Michigan

We have audited the financial statements of Montague Area Public Schools as of and for the year ended June 30, 2006 and have issued our report thereon dated September 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

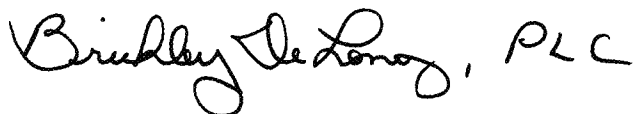
In planning and performing our audit, we considered Montague Area Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Montague Area Public Schools' ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as Finding 1 in Part B of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

***Compliance***

As part of obtaining reasonable assurance about whether Montague Area Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

September 29, 2006

Board of Education  
Montague Area Public Schools  
Montague, Michigan

### *Compliance*

We have audited the compliance of Montague Area Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its cluster of major federal programs for the year ended June 30, 2006. Montague Area Public Schools' cluster of major federal programs is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its cluster of major federal programs is the responsibility of Montague Area Public Schools' management. Our responsibility is to express an opinion on Montague Area Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Montague Area Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Montague Area Public Schools' compliance with those requirements.

In our opinion, Montague Area Public Schools complied, in all material respects, with the requirements referred to above that are applicable to its cluster of major federal programs for the year ended June 30, 2006.

### *Internal Control Over Compliance*

The management of Montague Area Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Montague Area Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Board of Education  
September 29, 2006  
Page 2

***Internal Control Over Compliance—Continued***

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

***Schedule of Expenditures of Federal Awards***

We have audited the financial statements of Montague Area Public Schools as of and for the year ended June 30, 2006 and have issued our report thereon dated September 29, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brickley DeLong, PLC*



Montague Area Public Schools  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Notes
					Prior year	Current year	Total		
U.S. Department of Education									
Passed through Michigan Department of Education									
Title I	84.010								
051530 0405		\$ 177,699	\$ 61,635	\$ 84,029	\$ 155,306	\$ 22,394	\$ 177,700	\$ -	
051530 0506		31,354	-	31,354	-	31,354	31,354	-	
061530 0506		196,182	-	153,512	-	165,230	165,230	11,718	
		405,235	61,635	268,895	155,306	218,978	374,284	11,718	
Title V	84.298								
040250 0405		3,972	2,963	2,963	3,972	-	3,972	-	
050250 0405		249	249	249	249	-	249	-	
050250 0505		4,218	-	4,218	-	4,218	4,218	-	
060250 0506		2,919	-	163	-	2,919	2,919	2,756	
		11,358	3,212	7,593	4,221	7,137	11,358	2,756	
Technology Literacy Challenge	84.318								
044290 0405		865	436	436	865	-	865	-	
054290 0506		5,313	-	4,055	-	5,313	5,313	1,258	
064290 0506		3,783	-	-	-	239	239	239	
		9,961	436	4,491	865	5,552	6,417	1,497	
Improving Teacher Quality	84.367								
050520 0405		68,445	17,263	17,263	68,445	-	68,445	-	
050520 0506		10,892	-	10,892	-	10,892	10,892	-	
060520 0506		73,522	-	58,033	-	58,033	58,033	-	
		152,859	17,263	86,188	68,445	68,925	137,370	-	
Elementary and Secondary Education Hurricane Relief	84.938								
Katrina FY 2006 064120		3,288	-	-	-	3,288	3,288	3,288	
Total passed through Michigan Department of Education		582,701	82,546	367,167	228,837	303,880	532,717	19,259	
Passed through Muskegon Area Intermediate School District									
PL 101-476 Flowthrough	84.027								
060450 0505		90,522	-	90,022	-	90,522	90,522	500	
Total U.S. Department of Education		673,223	82,546	457,189	228,837	394,402	623,239	19,759	

Montague Area Public Schools  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED**  
Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Notes
					Prior year	Current year	Total		
<b><i>U.S. Department of Agriculture</i></b>									
Passed through Michigan Department of Education									
National School Lunch and Breakfast									
Entitlement Commodities	10.550	\$ 24,839	\$ -	\$ 24,839	\$ -	\$ 24,839	\$ 24,839	\$ -	5
Bonus Commodities		3,124	-	3,124	-	3,124	3,124	-	5
		27,963	-	27,963	-	27,963	27,963	-	
Child Nutrition Cluster									
051970 Lunch—Breakfast	10.553	61,220	-	5,491	55,729	5,491	61,220	-	3
061970 Lunch—Breakfast		57,374	-	57,374	-	57,374	57,374	-	3
		118,594	-	62,865	55,729	62,865	118,594	-	
051950 All Lunches	10.555	33,998	-	3,735	30,263	3,735	33,998	-	3
061950 All Lunches		30,922	-	30,922	-	30,922	30,922	-	3
051960 Free and Reduced		143,934	-	16,400	127,534	16,400	143,934	-	3
061960 Free and Reduced		132,285	-	132,285	-	132,285	132,285	-	3
		341,139	-	183,342	157,797	183,342	341,139	-	
051940 Special Milk	10.556	1,492	-	160	1,332	160	1,492	-	3
061940 Special Milk		1,159	-	1,159	-	1,159	1,159	-	3
		2,651	-	1,319	1,332	1,319	2,651	-	
Total Child Nutrition Cluster		462,384	-	247,526	214,858	247,526	462,384	-	
Total passed through Michigan Department of Education		490,347	-	275,489	214,858	275,489	490,347	-	
Passed through County of Oceana School and Roads	10.665	5,558	-	5,558	-	5,558	5,558	-	
Total U.S. Department of Agriculture		495,905	-	281,047	214,858	281,047	495,905	-	
<b><i>U.S. Department of Health and Human Services</i></b>									
Passed through Muskegon Area Intermediate School District									
Medical Assistance Program Title XIX 393	93.778	7,000	-	7,000	-	7,000	7,000	-	
<b><i>U.S. Department of Homeland Security</i></b>									
Passed through Michigan State Police Homeland Security Grant									
2003 SHSGP	97.004	4,002	-	4,002	-	4,002	4,002	-	
TOTAL FEDERAL ASSISTANCE		\$ 1,180,130	\$ 82,546	\$ 749,238	\$ 443,695	\$ 686,451	\$ 1,130,146	\$ 19,759	

Montague Area Public Schools  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2006

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
3. Child Nutrition Cluster
4. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report schedule of expenditures of federal awards.

Revenues from federal sources per June 30, 2006

Governmental Funds financial statements

General Fund	\$ 410,074	
Other governmental funds (includes Food Service Fund)	<u>275,489</u>	\$ 685,563

Timing difference in recognizing grant revenue		<u>888</u>
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Expenditures per single audit report

Schedule of Expenditures of Federal Awards		<u><u>\$ 686,451</u></u>
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5. Entitlement and Bonus Commodities were inadvertently understated on the June 30, 2005 Schedule of Expenditures of Federal Awards. Those amounts are included with the amounts received in Entitlement and Bonus Commodities for the year ended June 30, 2006.

Montague Area Public Schools  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended June 30, 2006

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Montague Area Public Schools.
2. *One (1)* reportable condition disclosed during the audit of the financial statements is reported in the Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and is reported in Part B of this schedule. This reportable condition is not reported as a material weakness.
3. *No* instances of noncompliance material to the financial statements of Montague Area Public Schools were disclosed during the audit as reported in Part B of this schedule.
4. There were *no* reportable conditions disclosed during the audit of the major federal award programs as reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and as reported in Part C of this schedule.
5. The auditors' report on compliance for the cluster of major federal award programs for Montague Area Public Schools expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as a cluster of major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Agriculture</i> Child Nutrition Cluster	10.553, 10.555 and 10.556

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Montague Area Public Schools was determined to be a low-risk auditee.

Montague Area Public Schools  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED**  
Year ended June 30, 2006

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**COMPLIANCE**

NONE

**REPORTABLE CONDITIONS**

**Fiscal 2006 Finding No. 1: Cash Segregation of Duties**

*Condition:* Individuals in the accounting department have multiple cash duties.

*Effect:* The lack of segregation of duties provides the opportunity for errors or the misappropriation of funds to go undetected.

*Recommendation:* Segregation of duties in the accounting department should be strengthened.

*Questioned Costs:* None

*School District Response:* The School District has limited opportunities to further segregate duties within the cash receipts and cash disbursements functions. This condition is primarily due to limited staff in this smaller School District and very limited resources currently available to hire additional staff. During the year ending June 30, 2007, School District management will review opportunities to further segregate duties.

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**COMPLIANCE**

NONE

**REPORTABLE CONDITIONS**

NONE

## **CLIENT DOCUMENTS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

September 29, 2006

Michigan Department of Education  
Lansing, Michigan

Montague Area Public Schools respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2005 dated September 20, 2005.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT**

**COMPLIANCE**

There were *no* compliance findings in relation to the financial statement audit.

**REPORTABLE CONDITIONS**

**Fiscal 2005 Finding No. 1: Journal Entry Procedures**

*Condition:* General ledger journal entries are not reviewed and approved.

*Recommendation:* Journal entries should be reviewed and approved by an appropriate official.

*Current Status:* The recommendation was implemented during the year ended June 30, 2006. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

**Fiscal 2005 Finding No. 2: Cash Segregation of Duties**

*Condition:* Individuals in the accounting department have multiple cash duties.

*Recommendation:* Segregation of duties in the accounting department should be strengthened.

*Current Status:* See Fiscal 2006 Finding No. 1 for a similar finding noted during the single audit for the year ended June 30, 2006.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued**

**Fiscal 2005 Finding No. 3: Bank Statements**

*Condition:* Cancelled checks are not being received from the bank, either physically or electronically.

*Recommendation:* Cancelled checks should be requested from the bank and reviewed.

*Current Status:* The recommendation was implemented during the year ended June 30, 2006. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

**Fiscal 2005 Finding No. 4: Purchase Order Procedures**

*Condition:* During our testing, we noted that certain cash disbursements did not have associated purchase orders and some that were not properly authorized on the purchase order.

*Recommendation:* Purchase orders should be prepared for all items except monthly recurring items and filled in completely including proper authorization.

*Current Status:* The recommendation was implemented during the year ended June 30, 2006. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

**Fiscal 2005 Finding No. 5: School Lunch Card Reconciliation Procedures**

*Condition:* School lunch swipe card account activity did not agree to the general ledger.

*Recommendation:* Detailed schedules of student lunch swipe card accounts should be reconciled to the general ledger on a regular basis.

*Current Status:* The recommendation was implemented during the year ended June 30, 2006. *No* similar finding was noted during the single audit for the year ended June 30, 2006.



## C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

### COMPLIANCE

**Fiscal 2005 Finding No. 6: Eligibility Verification Testing**  
School Breakfast Program  
CFDA: 10.553  
National School Lunch Program  
CFDA: 10.555  
Award Numbers: 041970, 051970, 041950, 051950,  
041960, 051960  
Award Year Ends: September 30, 2004 and September 30,  
2005

*Condition:* During our compliance tests for eligibility, we noted 5 of 40 applications for free and reduced meals did not correspond to benefits that the student received due to a math error. We further noted that 2 of 40 applications were not available for eligibility determination.

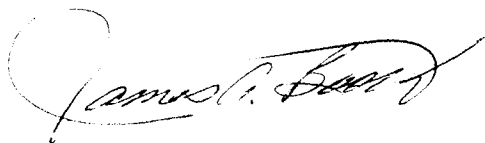
*Recommendation:* The School District should verify the application is mathematically correct prior to the eligibility determination.

*Current Status:* The recommendation was implemented during the year ended June 30, 2006. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

### REPORTABLE CONDITIONS

See Finding No. 6 in Part C above.

Sincerely,

A handwritten signature in black ink, appearing to read "James C. Booth". The signature is fluid and cursive, with a large initial "J" and "B".

Dr. James Booth  
Superintendent

## **CORRECTIVE ACTION PLAN**

September 29, 2006

Michigan Department of Education  
Lansing, Michigan

Montague Area Public Schools respectfully submits the following Corrective Action Plan for the year ended June 30, 2006.

Name and address of independent public accounting firm:

Brickley DeLong, PLC  
P.O. Box 999  
Muskegon, Michigan 49443

Audit period: June 30, 2006

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2006 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

### **B. FINDINGS—FINANCIAL STATEMENT AUDIT**

#### **COMPLIANCE**

There were *no* compliance findings reported in relation to the financial statement audit.

#### **REPORTABLE CONDITIONS**

##### **Fiscal 2006 Finding No. 1: Cash Segregation of Duties**

*Recommendation:* Segregation of duties in the accounting department should be strengthened.

*Action Taken:* The School District has limited opportunities to further segregate within the cash receipts and cash disbursements functions. This condition is primarily due to limited staff in this smaller School District and very limited resources to hire additional staff. During the year ending June 30, 2007, School District management will review opportunities to further segregate duties.

Michigan Department of Education  
September 29, 2006  
Page 2

### **C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS**

#### **COMPLIANCE**

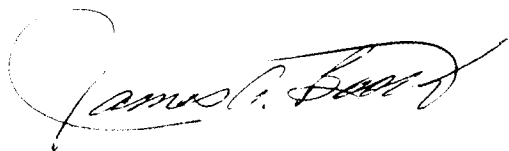
There were *no* compliance findings reported in relation to major federal award programs.

#### **REPORTABLE CONDITIONS**

There were *no* reportable conditions reported in relation to major federal award programs.

If the Michigan Department of Education has questions regarding this plan, please call Dr. James Booth at (231) 893-1515.

Sincerely,

A handwritten signature in black ink, appearing to read "James C. Booth". The signature is fluid and cursive, with a large initial "J" and "B".

Dr. James Booth  
Superintendent

FORM **SF-SAC**  
(5-2004)U.S. DEPT. OF COMM.— Econ. and Stat. Admin.— U.S. CENSUS BUREAU  
ACTING AS COLLECTING AGENT FOR  
OFFICE OF MANAGEMENT AND BUDGET**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS  
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

**Federal Audit Clearinghouse**  
1201 E. 10th Street  
Jeffersonville, IN 47132**PART I****GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)****1. Fiscal period ending date for this submission**

Month Day Year

06 / 30 / 2006

Fiscal Period End Dates Must  
Be In 2004, 2005, or 2006**2. Type of Circular A-133 audit**1 ☒ Single audit 2 ☐ Program-specific audit**3. Audit period covered**1 ☒ Annual 2 ☐ Biennial 3 ☐ Other -  Months**4. FEDERAL  
GOVERNMENT  
USE ONLY**Date received by  
Federal clearinghouse**5. Auditee Identification Numbers****a. Primary Employer Identification Number (EIN)**

3 8 - 6 0 0 2 9 4 0

**b. Are multiple EINs covered in this report?** 1 ☐ Yes 2 ☒ No**c. If Part I, Item 5b = "Yes," complete Part I, Item 5c  
on the continuation sheet on Page 4.****d. Data Universal Numbering System (DUNS) Number** -  - **e. Are multiple DUNS covered in this report?** 1 ☐ Yes 2 ☒ No**f. If Part I, Item 5e = "Yes," complete Part I, Item 5f  
on the continuation sheet on Page 4.****6. AUDITEE INFORMATION****a. Auditee name**

MONTAGUE AREA PUBLIC SCHOOLS

**b. Auditee address (Number and street)**

4882 STANTON BOULEVARD

City

MONTAGUE

State

ZIP + 4 Code

MI

4 9 4 3 7 -

**c. Auditee contact**

Name

DR. JAMES BOOTH

Title

SUPERINTENDENT

**d. Auditee contact telephone**

( 231 ) 893 - 1515

**e. Auditee contact FAX**

( ) -

**f. Auditee contact E-mail****g. AUDITEE CERTIFICATION STATEMENT** - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Signature of certifying official

Date  
Month Day Year  
9 / 29 / 06

Printed Name of certifying official

DR. JAMES BOOTH

Printed Title of certifying official

SUPERINTENDENT

**7. AUDITOR INFORMATION (To be completed by auditor)****a. Auditor name**

BRICKLEY DELONG, PLC

**b. Auditor address (Number and street)**

316 MORRIS AVE., SUITE 500

City

MUSKEGON

State

ZIP + 4 Code

MI

4 9 4 4 0 -

**c. Auditor contact**

Name

TIMOTHY D. ARTER

Title

PARTNER

**d. Auditor contact telephone**

( 231 ) 726 - 5800

**e. Auditor contact FAX**

( 231 ) 722 - 0260

**f. Auditor contact E-mail**

TARTER@BRICKLEYDELONG.COM

**9. AUDITOR STATEMENT** - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3; and **is not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor

Date  
Month Day Year  
9 / 29 / 06

Timothy D. Arter, CPA

for Brickley DeLong, PLC

**PART II FINANCIAL STATEMENTS (To be completed by auditor)**

## 1. Type of audit report

Mark either: 1 ☒ Unqualified opinion **OR**  
 any combination of: 2 ☐ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1 ☐ Yes 2 ☒ No

3. Is a reportable condition disclosed? 1 ☒ Yes 2 ☐ No – SKIP to Item 5

4. Is any reportable condition reported as a material weakness? 1 ☐ Yes 2 ☒ No

5. Is a material noncompliance disclosed? 1 ☐ Yes 2 ☒ No

**PART III**
**FEDERAL PROGRAMS (To be completed by auditor)**

1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12) 1 ☐ Yes 2 ☒ No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b)) \$ 300,000

3. Did the auditee qualify as a low-risk auditee? (§ .530) 1 ☒ Yes 2 ☐ No

4. Is a reportable condition disclosed for any major program? (§ .510(a)(1)) 1 ☐ Yes 2 ☒ No –SKIP to Item 6

5. Is any reportable condition reported as a material weakness? (§ .510(a)(1)) 1 ☐ Yes 2 ☐ No

6. Are any known questioned costs reported? (§ .510(a)(3) or (4)) 1 ☐ Yes 2 ☒ No

7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b)) 1 ☐ Yes 2 ☒ No

8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)

- |  |  |   |  |
|--|--|---|--|
| 98 <input type="checkbox"/> U.S. Agency for International Development      | 83 <input type="checkbox"/> Federal Emergency Management Agency      | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration   |
| 10 <input type="checkbox"/> Agriculture                                    | 39 <input type="checkbox"/> General Services Administration          | 89 <input type="checkbox"/> National Archives and Records Administration  | 19 <input type="checkbox"/> U.S. Department of State         |
| 23 <input type="checkbox"/> Appalachian Regional Commission                | 93 <input type="checkbox"/> Health and Human Services                | 05 <input type="checkbox"/> National Endowment for the Arts               | 20 <input type="checkbox"/> Transportation                   |
| 11 <input type="checkbox"/> Commerce                                       | 97 <input type="checkbox"/> Homeland Security                        | 06 <input type="checkbox"/> National Endowment for the Humanities         | 21 <input type="checkbox"/> Treasury                         |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 14 <input type="checkbox"/> Housing and Urban Development            | 07 <input type="checkbox"/> National Science Foundation                   | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense  | 03 <input type="checkbox"/> Institute of Museum and Library Services | 47 <input type="checkbox"/> Office of National Drug Control Policy        | 64 <input type="checkbox"/> Veterans Affairs                 |
| 84 <input type="checkbox"/> Education                                      | 15 <input type="checkbox"/> Interior                                 | 09 <input type="checkbox"/> Small Business Administration                 | 00 <input checked="" type="checkbox"/> None                  |
| 81 <input type="checkbox"/> Energy   | 16 <input type="checkbox"/> Justice                                  |   | <input type="checkbox"/> Other – Specify:                    |
| 66 <input type="checkbox"/> Environmental Protection Agency                | 17 <input type="checkbox"/> Labor                                    |   |  |
|  | 09 <input type="checkbox"/> Legal Services Corporation               |   |  |

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives ..... ☒
- and, if not marked above, the Federal cognizant agency ..... ☐

Count total number of boxes marked above and submit this number of reporting packages ..... 1

**PART III** FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR				10. AUDIT FINDINGS						
Federal Agency Prefix / (a)	CFDA Number	Extension <sup>2</sup> (b)	Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		Type(s) of compliance requirement(s) <sup>4</sup> (a)	Audit finding reference number(s) <sup>5</sup> (b)
							Major program	If yes, type of audit report <sup>3</sup> (h)		
8 4	.010		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE I	\$ 218,978.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.298		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE V	\$ 7,137.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.318		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TECHNOLOGY LITERACY CHALLENGE	\$ 5,552.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.367		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	IMPROVING TEACHER QUALITY	\$ 68,925.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.938		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	ELEMENTARY AND SECONDARY EDUCATION HURRICANE RELIEF	\$ 3,288.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.027		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PL 101-476 FLOWTHROUGH	\$ 90,522.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 0	.550		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMODITIES	\$ 27,963.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 0	.553		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD NUTRITION CLUSTER LUNCH - BREAKFAST	\$ 62,865.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
1 0	.555		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD NUTRITION CLUSTER - LUNCH	\$ 183,342.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
1 0	.556		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD NUTRITION CLUSTER - MILK	\$ 1,319.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
<b>TOTAL FEDERAL AWARDS EXPENDED</b>					\$ 686,451.00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

<sup>1</sup> See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.<sup>2</sup> Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)<sup>3</sup> If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.<sup>4</sup> Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.

A. Activities allowed or unallowed

B. Allowable costs/cost principles

C. Cash management

D. Davis - Bacon Act

<sup>5</sup> N/A for NONE

E. Eligibility

F. Equipment and real property management

G. Matching, level of effort, earmarking

H. Period of availability of Federal funds

I. Procurement and suspension and debarment

J. Program income

K. Real property acquisition and relocation assistance

L. Reporting

M. Subrecipient monitoring

N. Special tests and provisions

O. None

P. Other

**PART III FEDERAL PROGRAMS - Continued****9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR**

CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		If yes, type of audit report 3 (h)	10. AUDIT FINDINGS	
Federal Agency Prefix 1 (a)	Extension 2 (b)					1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	2 <input checked="" type="checkbox"/> No		Type(s) of compliance requirement(s) 4 (a)	Audit finding reference number(s) 5 (b)
1	0 . 665	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SCHOOL AND ROADS	\$ 5,558 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No			O	N/A
9	3 . 778	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	MEDICAL ASSISTANCE PROGRAM TITLE XIX	\$ 7,000 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No			O	N/A
9	7 . 004	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HOMELAND SECURITY GRANT	\$ 4,002 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No			O	N/A
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**PART I** **Item 5 Continuation Sheet**

c. List the multiple Employer Identification Numbers (EINs) covered in this report.										f. List the multiple DUNS covered in the report.									
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IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.



# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

September 29, 2006


Board of Education  
Montague Area Public Schools  
Montague, Michigan

In planning and performing our audit of the financial statements of Montague Area Public Schools for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Montague Area Public Schools' ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such a reportable condition.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable condition described above is not believed to be a material weakness.

This report is intended solely for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

## REPORTABLE CONDITION

### *Cash*

Recommendation 1: Segregation of duties in the Accounting Department should be strengthened.

Although the small size of the School District's office staff limited the segregation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

One of the most critical areas of segregation is cash disbursements, in which we noted the director of business affairs and the services coordinator both have the ability to write checks, sign checks with the use of MICR keys and record checks in the general ledger. The director of business affairs also prepares the bank reconciliation.

In the payroll function, the director of business affairs enters payroll information into the general ledger, prints the checks, and signs the checks using the MICR keys.

The result is the danger that errors or the misappropriation of funds could occur and not be detected. The superintendent does review unopened bank statements, bank reconciliations, and approves purchase orders. We recommend he also control the MICR keys.

In the cash receipts area, we noted that a separate person opens the mail and records receipts in the receipt book. However, this material is given to the person who prepares the deposit slips and deposits the money. We suggest that the person opening the mail make a separate receipt list that can later be reconciled with the deposit slip.